

Summary of Business Rules for Accounting for and Reporting of Military Equipment

Componentization

Objective

- Provide guidance on accounting for end items and components of end items in a manner consistent with the provisions of the Statement of Position issued by the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants entitled, *Accounting for Certain Costs and Activities Related to Property, Plant, and Equipment*.

Baseline Valuation Methodology

- Capitalize the full cost of an end item (functional unit) without attempting to segregate and value components.

Mid-Term Valuation Methodology

- Generally capitalize the full cost of a functional unit (e.g., aircraft).
- With DoD concurrence to ensure financial reporting consistency, allow Military Department management to componentize below the functional unit level.
- Where the componentization option is selected, the decision should be based on the following criteria: (1) the subpart is acquired through a separate program, (2) the estimated cost of the subpart is significant in relation to the estimated cost of the end item, (e.g., 20 percent), and (3) the estimated useful life of the subpart differs significantly from the estimated useful life of the end item (e.g., 20 percent).